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Chapter 9

Identifying Resources for Going Global

Stephen Tallman

Business firms have been described as bundles of resources and capabilities (or assets and skills, or a variety of other terms indicating a combination of hard, or at least clearly identifiable, components and soft, or at least somewhat undefined, abilities and processes), bound together by ownership, contracts, common management, organizational culture, identity, and a variety of other processes. This chapter focuses on resources and capabilities, and considers how such component parts can enhance or discourage globalization, and how the firm's stock of resources and capabilities is altered by processes of globalization.

The next section considers the essential strategic role of resources and capabilities, in general and in the global setting. We then look specifically at the international environment and how it offers a unique setting for both the application and the renewal of resources and capabilities. The intention here is to provide guidance for identifying the essential resource and capability needs for successful international expansion and global integration, and to also address the types of strategies that can both exploit and renew the resource stock of the multinational firm in a global environment.

RESOURCE STRATEGIES

Before we look specifically at resources and resource strategies in the global setting, we should be very clear about the ties between strategic resources and firm organizations and performance. From the perspective of the Resource-Based Theory of strategy,¹ the purpose of business strategy is to acquire, exploit, and defend unique resources and capabilities for the firm in order to create and sustain competitive advantage in the marketplace—find what you are uniquely good at and pursue it.² Firms that possess unique, or firm-specific, resources and capabilities (FSRCs) have the potential to either reduce costs or produce unique products and thereby to increase sales, market share, and size, to generate greater than usual profits, and to create increased economic value for shareholders and other stakeholders. In order to accomplish these economic goals, firms must not just *have* unique assets, though, they must also *apply* these assets in the marketplace to generate products that offer unique value to their customers, whether lower prices, unique capabilities, or some combination of these two concerns. In addition, firms with unique and valuable assets must also protect these assets from imitation or misappropriation by competitors. A resource or capability shared by all is not a source of superior economic benefits or competitive advantage. Finally, the benefits from these resources and capabilities must be appropriable by the firm—that is, the organization must be able to take possession of excess profits, innovations, market share, and the like. If these benefits must be shared with partners, paid to employees, or turned over to patent holders, then the firm fails to benefit, and ultimately these are not FSRCs that have the potential for providing competitive advantage.

In order to understand the firm from a resource or capabilities-focused perspective, we need to understand the various types of assets that make up the firm. The critical assets are the FSRCs described above—those assets that make the firm distinctive and capable of unique performance. These are embedded in a larger set of assets, though. Many assets are fungible across a variety of settings, even though they are an essential part of any organization. Indeed, many of the classic factors of production can be seen this way: capital, labor, land, and so forth are needed for any firm, and are seen as transferrable from one purpose to another. Firms also typically possess a set of industry-specific assets and skills: property, plant [and] equipment, trained workers and managers, technology assets such as patents, knowledge of the essentials of adding value in the industry, and so

forth. However, these assets are really just a cost of doing business—all the competitors in an industry sector will share them, and while a different set of resources may restrain entry and mobility in the industry, the internal commonality generally means that no firm will be able to perform better than the rest based on access to such resources. Firm-specific superior performance is the consequence of a strong set of FSRCs, unique and valuable in the competitive setting.

Jay Barney, in his often-cited paper that really launched RBT on the strategy community, points to three categories of resources that have potential to offer strategic advantage.³ However, he also points out that the potential benefits are not equal. First, there are physical resources such as unique process equipment, patents, or locations. In general, these resources are observable and imitable over a period of time, so tend to offer only temporary advantage. However, such resources are often more defensible in international settings where unique ties to a particular location in a country that is not necessarily open to competitors can be sustained—so long as the local government does not intervene too heavily.⁴ A second type of unique resource is the human element. Studies have shown that a small number of individuals are very productive, whether on a basketball team, a design studio, or a laboratory. Such people can provide much value to their organizations. However, people can also walk away, be hired by a competitor, or ask for a larger piece of the pie. If the person in question is a star scientist, the firm may have the choice of either paying her true value—which may in truth be most of the company's profits—or watch the key asset walk out the door.

As a result, Barney says that the only *really* strategic FSRCs are organizational capabilities. Complex patterns of behavior that develop through experience, are distributed over a group or team, that can be used to incorporate new individuals, applied to new projects, or adapted over time tend to be unique, to be hard to understand and imitate, and to be too diffuse for individuals or partners to seize the rewards. Indeed, the capabilities of the organization and its management are often the basis for success on the part of physical and human resources, both of which may have less value in a different organizational setting, so that particularly valuable organizational capabilities may not just pay off themselves through improved effectiveness and efficiency for the organization, but may add significant value to the other assets of the firm; value that the organization can appropriate, since it is not imitable in the case of physical resources or portable in the case of human assets.

RESOURCE AND CAPABILITY STRATEGIES IN THE GLOBAL SETTING

Beyond the essential objective of increased economic value, what forces drive firms to look to international expansion as a strategic move? These forces come from sources both external and internal to the firm. Because the study of multinational firms evolved from the study of international trade, the usual focus has been on drivers of direct investment, though these considerations lie behind international involvements of all sorts. From an FSRC-oriented strategic perspective, though, there are two main objectives: to leverage existing FSRCs in new or larger markets and to acquire or build new FSRCs in new places.

In deciding how to find, protect, and apply their unique assets internationally, multinational firms must make two key strategic decisions about the international marketplace.⁵ The first is the scope of their international operations (degree of **internationalization**), which refers to the choice of how widely to disperse their activities across international locations. The second is the desired degree of cross-national integration or consolidation of operations (**globalization**), which refers to the choice of how much to consolidate international markets and operations into a single worldwide strategic entity. Some authors feel that as relatively few companies are actually present in worldwide markets, most preferring to invest primarily in their home regional markets, so consolidation regionally is more relevant to current multinational strategies.⁶ Whether regionalization is but a step on the way toward global consolidation or is the end result for most firms, the issue of consolidating and coordinating across various foreign markets remains independent of the drive to spread into new markets.

Resource strategies and multinational strategies work together to generate competitive advantage. Internationalization and integration offer opportunities to leverage existing resources and capabilities, both those related to generating superior goods or services and those related to managing the organization. Moving into new markets exploits investments in fixed assets such as brands and technology. Exporting from home markets increases economies of scale in existing plants, while consolidation of multiple national markets regionally (or even across regions) permits the development of large production facilities for regional or world markets—and also permits both the wider exploitation of intellectual property investment and the consolidation of overhead activities in regional or global headquarters

facilities. Superior managerial capabilities are also emphasized through internationalization and globalization, as coordinating more and more widespread operations raises constant challenges, and integrating these operations into a single operation, dispersed but responsive, is tremendously demanding. Just as the skills of a Tiger Woods show to best advantage on difficult golf courses, so the challenges of multi-product multinational competition differentiate the most skilled management teams more than do less complex settings.

Likewise, internationalization and consolidation offer opportunities to build new resources and capabilities. Internationalization brings the firm into multiple varied locations where new resources, new market ideas, and new products can be found and must be tried. Participation in many markets, particularly through subsidiaries and joint ventures, will give the multinational firm access not just to new opportunities for exercising its existing capabilities, but to new capabilities that can be internalized, made available to the worldwide firm, and applied in far-distant local markets, where these new ideas can offer a level of differentiation not available to those local competitors. Managing this global organizational learning, as well as directing and coordinating the movement of real goods among subsidiaries around the world, offers considerable opportunity for building organizational capabilities at corporate management. Firms can work themselves into difficulties with excessively fast or broad internationalization, but empirical evidence suggests that experience with increasing international scope and experience with increasing global (or regional) integration leads to success in yet further internationalization and globalization and to superior economic performance.⁷

So, if the strategic objectives of firms are to build, protect, and exploit resources and capabilities in order to create sustainable advantage and superior performance, we see that a multinational strategy is a valuable tool. Internationalizing into new markets and tying these markets together with the most efficient production offer great opportunities for generating stable profits from the firm's current resources over a broad set of markets. At the same time, building the multinational firm's resource base to compete strongly for future profits is greatly helped by internationalization—new products and ideas come from new and varied locations and new managerial competencies develop from controlling and coordinating many operations in many locations. All these assets and skills applied to assorted markets around the world provide great chances to sustain

competitive advantage compared to less multinational competitors. The next sections expand on these ideas in some detail.

INTERNATIONALIZATION AND RESOURCE ROLES

The single most often applied framework used to describe internationalization by organizations is the Eclectic Paradigm proposed by John Dunning.⁸ While not presented as a resource-based framework, the Eclectic Model has been tied to resource and capability based strategy more than once.⁹ To greatly simplify, Dunning says that in order to internationalize, organizations must have ownership of certain superior assets—otherwise the competitive disadvantages of operating across borders will lead to quick competitive failure. However, such assets, or what resource-based theory would call FSRCs, can be exploited in many ways—the most obvious being through market transactions involving exports from the home country. Indeed, the majority of international transfer of goods and services does occur through export and import trade.

However, exports do not always serve strategies most effectively. Dunning looks to location economics to suggest that location assets must be considered by the organization with strategic FSRC. If home-based production is not efficient due to production costs, shipping costs, or regulatory costs that raise prices in foreign markets, the firm should look to foreign production. In the classic model, this is production in the country which is the target market, but in the globalized world, it may be production in a third location, so long as products can be delivered to customers in the target market at a lower cost than if exported from home. Of course, third country production may also involve trade, but none of the costs associated with trade are constants—all vary from country pair to country pair.

If we know what we make and where we want to make it, the final consideration of the Eclectic Model is how the movement of value from source to customer will be governed. That is, if production is outside the home country, is it also outside the home firm? Foreign production can be provided through licensing to a local outsourcer, it can be developed through an entrepreneurial startup, it can be acquired with a foreign competitor, or it can come from a cooperative venture, whether contractual or equity-based. This concern is frequently addressed as the Internalization decision, that is, should the cross-border transaction be internalized or left to the market—or

somewhere in between through an alliance or joint venture? This decision is often characterized as determined by external conditions such as the availability of reliable distributors or partners, host country legal and regulatory protections for proprietary assets, or the degree to which the transmitted value is tied to goods and services or to intellectual property. However, firm capabilities are also related to the governance decision, as competence and experience at foreign ownership or alliance management—or export management for that matter—can predispose the multinational firm to choosing one governance mode or another, and can provide much better chances for success after making that decision.

As RBT itself has evolved, focus has shifted to the role of knowledge as the critical aspect of sustained competitive advantage. Under the assumption that any hard asset can eventually be copied, the Knowledge Based View maintains that the focus of resource-oriented models should be strictly on the role of unique knowledge in generating competitive advantage.¹⁰ Dunning himself says that since the 1970s, competitive advantage has shifted from resources (by which he means tangible assets) to knowledge and intellectual capital. Capabilities have come to focus on knowledge management and exploitation, and locations, as described above, have become important as the sources of unique knowledge and as multiple home bases. Internalization has turned to the intermediate forms of alliances, joint ventures, and network relationships that enhance the transmission, transformation, and exploitation of knowledge and away from the market or hierarchy dichotomy of the late industrial era. Again, an update of the Eclectic Model has brought significant developments in mainstream strategy into the international realm as theoretically sound tools for analysis of multinational companies. The Eclectic Model has obvious ties to knowledge models that deal with the sources of knowledge (location), the competitive benefits of knowledge (ownership), and the transfer and recombination of knowledge into new and original forms (governance).

So, while Dunning describes Ownership, Location, and Internalization considerations, resource-based theory provides the opportunity to describe these considerations more specifically. The multinational firm must have unique and valuable FSRCs related to its ability to offer superior value to its customers, whether through lower costs or superior performance or both. If the firm is to engage in international value production as well as international sales, it will need to identify resources tied to specific locations that complement its firm-specific

assets to further enhance its value proposition. And, finally, as the firm considers how to approach international markets—and product development, production, and support—it must contemplate its management capabilities as they interact with environmental and industry conditions. We will look at each of these resource issues in turn.

PRODUCT RESOURCES AND PRODUCTION CAPABILITIES

The one aspect of the Eclectic Model that has opened international business the most to resource-based theory is the focus on ownership factors. Dunning says that ownership advantages must be sufficient to counter the cost advantages of local producers and must be greater than the advantages to be gained by home production and export. In like manner, we saw that resource-based models propose that sustained competitive advantage is based on unique, firm-specific resources that are valuable, rare, inimitable, non-substitutable, and non-tradable. These two parallel concepts provide a strong recommendation that any firm contemplating entry into foreign markets give serious, detailed, realistic consideration to its strengths in the marketplace. What is the value proposition that the firm offers its customers? Classically, strategy suggests that value is provided either by offering a comparable product at a lower price, thus reducing the costs of the customer, or by offering a superior product, defined as one that provides the customer with a level of utility superior to that available from competing products.¹¹ The challenge of international expansion is that the need to overcome the added costs and uncertainties of foreign markets, often summarized as the liabilities of foreignness, mean that the marginal benefits of lower cost or superior performance must be larger than in the home market.¹² A good or service that is only slightly superior under the most compatible conditions is likely to struggle when placed against the outputs of local competitors with superior insights on the needs and desires of customers in their own home markets.

From a resource-based perspective, the superior competitive characteristics of a firm's outputs tie directly back to its own FSRCs. Effectively, these must either provide better product characteristics or superior production processes—or both, since these considerations are not independent of each other. If we return to Barney's categorization, we can see that physical assets—broadly construed—offer a first source

of advantage, but must be supported by strong human assets and well-conceived process capabilities to finally succeed. The specific technology embodied in a product may be superior, indeed, product innovation is often seen as the key to economic success for firms and for nations. Companies that make a better product will find more customers even as they charge a higher price for unique performance. A better mousetrap—or integrated circuit, cellular phone, motion picture, automobile, or consulting paradigm—should succeed in the market. If this product is based on unique knowledge resources that can be protected through patents, copyrights, trademarks, or secrecy, the firm should be able to earn higher than normal profits so long as the resources behind the product are kept proprietary. So, we see that value to the customer must be offered by the product, a value typically provided by either better input resources or by more efficient production processes that can make a better or less expensive product available.

For instance, Toyota is often said to make the most reliable automobiles in the world and to do so with the most productive process in the world. The Toyota Production System, which combines an array of techniques from just-in-time inventory to continuous improvement policies to total quality management and many others, has been refined over time to ensure minimal waste, maximum efficiency, and as close to no product defects as can possibly be done. Toyota has also focused on automobile design that simplifies manufacturing while offering reliability and fuel efficiency, if typically uninspiring performance. This system relies on well designed plants and equipment and engaged and inspired workers, but mostly on a set of capabilities for managing these hard assets and for improving on the system over time. Other auto makers have occasionally winning models through fortunate combinations, but few have managed to approach Toyota's ability to consistently turn out technologically up to date and perfectly assembled cars at a very fair price year in and year out. Toyota has been the market leader in Japan for decades, but has also been able to translate its product superiority, largely based on process capabilities, into a growing share of the international market and recent recognition as the largest global automobile company.

This final step to the top of the podium came at the expense of General Motors from the United States, which has managed to drop in less than forty years from a majority share of its home market and a leading position in the world to bankruptcy. Much of GM's failure

can be attributed to its inability to establish either product or process superiority. Its cars have been seen as undistinguished for most of that forty years. Adherence to outdated systems and constant labor strife made efficient processes impossible in GM's American operations. The company was never able to translate success in one market to others. Its American cars were unsuited to European or Asian markets, and its American customers were never inspired by adaptations of its foreign-developed models. While competing successfully in the U.S. market against equally uninspired offerings from Ford and Chrysler, GM was never able to find the superiority to crack the global marketplace. Even worse, the company discovered that the clear superiority of Toyota (and its compatriots from Honda, Nissan, and others) in newly relevant product characteristics such as build quality, technology, and efficiency were taking even its domestic customers.

What we see from this example is that one firm, Toyota, was able to combine its various organizational capabilities to produce a car that offers characteristics of value and reliability that are relevant around the world. GM, particularly the home company in North America, had strong organizational capabilities, but ones that had become focused over many years on its unique home market such that its products had little appeal elsewhere. Faced with a changing external environment, one in which fuel efficiency, pollution limits, safety, and reliability trumped power, size, and comfort, Toyota has been able to expand into markets around the globe through a combination of exports and investment. GM's Buick division has been able to exploit the Chinese market's demand for a large model with an investment in local production, but has had little success elsewhere with its exports—indeed, even its largely independent local subsidiaries such as Opel in Europe have struggled with inadequate investment and forgettable models. Turning internal FSRCs from ownership advantages in the home market to sources of global competitive advantage is not automatic, and the inability to do so may do more than cost sales in world markets—it may risk the loss of advantage even at home to more competitive rivals.

International expansion also offers the prospect of acquiring new FSRCs from international activities, either directly by allying or acquiring host country firms or indirectly by building new capabilities in the process of accessing foreign markets. Developing new FSRCs allows and encourages the already international firm to continue to

expand its international presence, and is likely to encourage global integration in as much as these assets are better exploited through rationalizing production, leveraging investments, and seeking efficiency throughout the value-adding process. Firms that are most likely to benefit in building their resource stocks from international expansion are those with a strong organizational learning perspective and strong dynamic capabilities. Dynamic capabilities are organizational competencies at learning, whether new processes, new product technologies, new organizational models, or any other aspect of managing a firm. Firms can emphasize exploratory or resource-seeking strategies and skills, or not. We see that some companies focus on learning and innovation while others do not. Forward-looking firms with strong capabilities for gathering ideas and concepts and recombining them to produce new concepts that can then be exploited for profit in many nations are going to benefit inordinately from the wider experiences and more varied inputs that will come from international expansion. Possession not only of strong, exploitable FSRCs to generate competitive advantage in foreign markets, but of well-honed skills at acquiring, disseminating, adapting, and applying new FSRCs makes for particularly successful multinational firms.

LOCATION AND MARKETS; LOCATION AND ASSETS

Location-based factors of production drive the theory of international trade and are the primary consideration that separates global business strategy from other business scholarship. A major objective of foreign direct investment in the Eclectic Model is to bring internationally mobile, firm-specific resources and capabilities into contact with complementary location-tied resources in order to produce more effectively for the local market.¹³ That is, the potentially multinational firm must have the internal strength of FSRCs that can make its products attractive to potential customers in foreign markets. If these assets provide either a minimum of advantage or an overwhelming benefit, the firm may access international markets through exports. In the first case, export markets are targets of opportunity, when individual foreign customers or distributors seek the firm's products for specific reasons. In the latter situation, the firm is sufficiently unique in its offering, whether through technological superiority, market strength, or cost controls, that it draws foreign customers despite making few concessions to their needs. The first situation describes many small

and medium firms dabbling in international markets, while the latter could be seen as the situation faced by companies such as Microsoft, in which a near monopolistic hold on the market for their highly proprietary operating system drives international demand for Windows and price is only mitigated by the threat and actuality of black markets and of anti-trust regulators.

However, most multinational firms offer somewhat unique products and processes based on the application of unique FSRCs, but are constrained in foreign markets by cost or differentiation limitations in those markets. For instance, multinational firms from developed countries have higher production costs at home than those in less developed target markets that tend to overwhelm possible preferences for their products. Production in less developed sites for more developed markets may struggle to provide the quality and technology expected by customers. Even in the case of markets with similar levels of development, unique techniques and processes may generate products that are less to the liking of foreign consumers than what would be produced locally. Local production offers a cost structure similar to those of local competitors and access to product technologies that are specific to the local market, which can combine with the unique aspects of the product resulting from the multinational firm's proprietary technologies to generate the competitive product that is needed to overcome the liabilities of foreign identity and product character.

The previous paragraph describes a condition in which a producer identifies host-country production assets that can be combined with its FSRCs to generate superior locally produced goods. However, host investment can also be a response to conditions that make trade less competitive. Structural barriers to free market entry, such as trade barriers, shipping costs, or immobile factors of production will encourage local production in the target market. Tariffs raise the prices of imports, quotas limit market access, local preferences put imports at a disadvantage. Local production itself becomes an asset that permits sales in the host market to respond to customer demand rather than artificial limits.

Location-specific assets such as host country production location or access to local complementary product or process technologies are typically treated as available to any multinational that engages in foreign direct investment in local production. However, it is clearly the case that host country assets may not necessarily be equally available or equal in value for all multinational firms. Many countries limit direct

investment, whether on the basis of nationality, technology, political connections, or willingness to partner with local firms, so access to foreign production may provide at least temporary competitive advantage to favored multinational firms. Even more likely is that certain host country sites or partners will offer superior local resources to the investing multinational firm. First entry or superior information about host country opportunities can allow a small set of foreign investors significant advantages over those that are left with less preferred situations. Thus, differentiated location specific assets can provide competitive advantage to certain multinationals over their international competitors while their firm specific assets provide them advantage over local firms.

The discussion of location specific assets to this point has focused on providing advantage to multinational firms that are attempting to use local production to replace international production and imports to service the local host market. However, foreign production can also be used to supply either the home market of the multinational firm, what is come to be called offshore production, or other foreign markets in a strategy of international rationalization of production. Either of these cases involves foreign direct investment in production and also exports either back to the home nation or to other parts of the multinational network. However, the key step is once again to bring the FSRCs of the multinational firm together with more productive location-tied assets in the foreign location, though in this case not for the purpose of entering that foreign market (though facilities may supply both local and international markets). Again, from the perspective of RBT, the specifics of the location provide complementary assets that enhance the value of the firm's assets and capabilities. The value of these foreign assets may be rather generic—after all, what consumer electronics plants are NOT produced in China in 2009? However, even in these cases, we see that some local partners are more reliable, more cooperative, and more adaptive than others, and some locations are superior to others in accessing resources, connecting to logistical systems, or aiding in further product development. Access to higher quality, more productive, foreign-based assets can provide competitive advantage to multinational producers in multiple markets, both their home and widespread international markets. Location-specific assets do not just provide access to their local markets, but can be part of the leverage for global firms to gain competitive advantage around the world.

COMMAND AND CONTROL OR COMMUNICATION AND COORDINATION? CAPABILITIES FOR INTERNATIONAL ORGANIZATION

We see above that successful internationalization—and globalization—requires that multinational firms have a set of unique, firm-specific, resources and capabilities for generating a superior product. Otherwise, they will struggle to overcome the natural disadvantage of being more or less distant from their international markets. To operate internationally, multinationals also need to tap into complementary location-specific resources that provide an advantage to setting up in the host market as opposed to simply exporting from their home bases. However, there remains a third set of capabilities that are critical to the global firm. These are the management capabilities that enable a company to effectively integrate operations scattered across a wide array of international markets and production sites. Dunning talks of internalization factors, conditions of the market and the firm that encourage internal control as opposed to market coordination of transactions.¹⁴ From the perspective of the firm considering how to manage itself, the concern is whether or not it has the organizational capabilities needed to manage a variety of widely separated, highly diversified operations in multiple foreign markets in such a way that the products that result from the first two sets of assets in combination are delivered to international customers in an efficient way. Conditions of the industry market may put pressures on the multinational firm to be more or less integrated and to internalize the control of foreign operations, but the more relevant issue is whether or not the firm has the skills and experience to respond to competitive pressures successfully. These management resources have been described as “the architectural capabilities of the multinational firm.”¹⁵

Architectural capabilities are defined as organization-wide routines for integrating the components of the organization to productive purposes.¹⁶ They are the sources of the organizational synergies at the core of the firm.¹⁷ In the multinational corporation, architectural capabilities involve identifying, replicating, integrating, and otherwise managing the FSRCs that actually generate the products of the firm effectively and efficiently. These capabilities are developed in the process of operating the firm, so are strictly firm-specific and tied closely to the administrative history of the firm. These capabilities relate to the ability of the firm to organize its assets and skills in order to be competitive in different locations and apply its component capabilities in ways that

successfully attain the firm's goals. This "macro-organizational knowledge"¹⁸ is not simply a way to reduce opportunistic risk through less costly governance of transactions, but enhances the profit potential of the firm's productive resources and capabilities.

Leveraging corporate-level architectural capabilities and appropriating their value added can greatly encourage international expansion.¹⁹ Resource-based models place great emphasis on managerial capabilities for organizing FSRCs into profit-generating bundles to drive firm expansion. Architectural capabilities also are essential to the coordination of technological efforts across boundaries. Studies show that architectural knowledge gained in managing multi-business domestic corporations can be extended to managing multi-country operations in international markets more effectively.²⁰ In addition, corporate-level architectural capabilities enhance the value of leveraging FSRCs by improving efficiency and effectiveness in sharing technical or other business-specific knowledge. Making effective use of FSRCs in multiple international markets requires a degree of central administration, but integrating differentiated subsidiary operations in multiple markets, all of which participate in the multinational firm's corporate assets to different degrees and all of which also offer their own unique resources and capabilities (most tied to their location, but some with potential for global application), obviously requires strong and ongoing coordination.

International expansion and global integration also offer multinational firms the opportunities to improve and enhance their managerial capabilities. Operating in many countries, even with minimal cross-market coordination, requires considerably more sophisticated managerial skills than operating in a single home market, but integrating across markets and managing a global network of differentiated affiliates and subsidiaries must challenge any firm to develop new architectural capabilities. While international diversification appears to require similar elements to product diversification, the complexity of managing an integrated global strategy through a complex firm structure is unique to the global firm. These capabilities are essential to the coordination of the product-oriented FSRCs described above, but also produce new methods of structuring all aspects of the firm's activities. Innovation becomes a product of internal R&D, research partnerships with various clients and suppliers, market scanning, and other processes pulled together through the network of relationships of the central firm. Global firms are able to combine products

across product lines and business units to offer bundles of products and services around the world that involve intensive coordination, not just international access, and which provide significant competitive advantage over firms which focus on isolated component knowledge.

As global operations become more complex, global firms must become more sophisticated. Networks of operations, all contributing both sales and resources to the corporation and sharing innovative ideas and products with each other cannot be managed through traditional centralized command and bureaucratic control. While it would seem that tight management would enhance the value of integrated operations over a wide area, this is seldom the case. For one thing, modern strategy requires flexibility and speedy reaction to rapidly developing situations and competition from many places—some that were hardly on the world economic map only a short time ago. Tight central control may be good for efficient pursuit of well-crafted plans, but it has little to offer when new strategies must evolve rapidly in response to emerging market conditions. Even less can central command and control manage effectively when innovative products and resources are emerging from widely scattered local operations rather than from corporate R&D, marketing, and product development centers. The modern multinational headquarters must pursue a softer path, focusing on enhancing communication and assisting coordination among the many productive assets of the global firm. It is ever more important that good ideas from many sources come together to provide innovation, so constant, but decentralized, communication is essential. As well, even if many ideas can be brought into contact, combination, testing, evaluation, and recombination are needed to actually produce anything new, and even when a superior combination is found, the new technologies and products must be encouraged to move out to the same scattered units for application in a variety of markets. Command and control will only disrupt the evolutionary aspect of this process, but a degree of coordination can simplify and speed the process of variation, selection, retention, and application that underlies this process. Time and competitive pressures may make a mockery of tight control, but they also don't wait for undirected happenstance.

SUMMARY

To sum up, this chapter argues that going international or becoming global are strategic decisions made by firms that require careful analysis and deep understanding of the resources and capabilities of the

individual firm. The budding (or maturing) multinational firm must have a set of unique FSRCs that enable it to generate a distinctive product—without these, the added challenges of global markets will never be overcome. In addition, the multinational firm must understand the assets and skills available in individual foreign markets that will complement their FSRCs, either positively or negatively. And that last relationship may well be decided by the third set of relevant resources, the organizational management capabilities of the firm's executives. Particularly in the ever-more-networked information age global economy, activities and operations must be spread around the earth to optimize productivity and technology, but they must also be coordinated into a mutually reinforcing network to be competitive internationally. Internal competencies, external complementarities, and organizational capabilities—all essential components of the resource mix for successful international expansion and global integration.

NOTES

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1. J. B. Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 17 (1991): 99–120.

2. Capabilities-Based Theory focuses on complex organizational resources and Knowledge-Based Theory specifically on knowledge resources, but both follow the essence of RBT closely. I will appeal to all of these concepts in this chapter, but as the first and most general of these theories, Resource-Based Theory gets the initial focus.

3. Ibid.

4. K. Fladmoe-Lindquist and S. Tallman, "Resource-Based Strategy and Competitive Advantage among Multinationals," in *Advances in Strategic Management*, 10A, ed. P. Shrivastava, A. Huff, and J. Dutton (Greenwich, CT: JAI Press, 1994), 45–72.

5. S. Tallman and K. Fladmoe-Lindquist, "Internationalization, Globalization, and Capability-Based Strategy," *California Management Review* 45 (2002): 116–35.

6. A. M. Rugman and A. Verbeke, "A Perspective on Regional and Global Strategies of Multinational Enterprises," *Journal of International Business Studies* 35 (2004): 3–18.

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